

## 2014-16 Postsecondary Education Budget Recommendation Executive Summary

*The Kentucky Postsecondary Education Improvement Act of 1997 (House Bill 1), codified under KRS 164.020, authorizes the Council on Postsecondary Education to submit to the Governor and General Assembly the biennial budget recommendation for the postsecondary education sector and its nine institutions.*

**ACTION: The staff recommends that the Council approve the budget recommendation as submitted for 2014-16.**

### Overview

Over the past five years, Kentucky's public postsecondary system has faced a challenging resource environment that has strained institutional operating budgets and threatens to impede continuing progress toward attainment of the goals and objectives outlined in *The Postsecondary Education Improvement Act* (HB 1, 1997) and the Council's *2011-15 Strategic Agenda for Kentucky Postsecondary and Adult Education*. Between fiscal years 2007-08 and 2012-13, the institutions sustained six budget cuts, losing a total of \$168.0 million or 15.5 percent of their combined net General Fund appropriations. During that same period, the number of full-time equivalent students attending state colleges and universities increased by 13,095 students or 9.0 percent.

At the February 2013 Council meeting, staff shared data showing that on an inflation-adjusted basis, Kentucky's public postsecondary system was expected to lose about \$2,592 per student or 32 percent of its real net General Fund appropriations per student between fiscal years 2007-08 and 2012-13. At some institutions that loss was offset by increased tuition and fee revenue, but at the system level, growth in tuition revenue has not been sufficient to fully fund the gap caused by declining state support. Institutions have responded to this funding deficit by implementing aggressive cost containment and avoidance strategies and reallocating funds from other purposes to maintain programmatic integrity. These actions helped produce cost savings and efficiencies that enabled the postsecondary system to maintain quality and move forward on improvement efforts in a fiscally challenging environment.

The ongoing economic and fiscal uncertainty provides a challenging environment for the Council to make a reasonable yet aggressive 2014-16 budget recommendation that is consistent with the mandates of HB 1 and closely aligned with the Council's *2011-15 Strategic Agenda*. HB 1 charges postsecondary education with primary responsibility for

increasing the skills and abilities of Kentucky's workforce and citizenry, leading to an improved quality of life and higher standards of living for all Kentuckians.

## **2014-16 Budget Development Process**

Beginning in April 2013, Council staff began meeting regularly (for the most part monthly) with campus presidents and chief budget officers (CBOs), as well as the Council's Budget Development Workgroup, to discuss and develop the 2014-16 postsecondary education budget recommendation. The workgroup, chaired by Dan Flanagan and including members Glenn Denton, Joe Graviss, Carolyn Ridley, and Robert Staat, provided direction and valuable input to the budget development process, meeting eight times with staff over the past eight months to discuss core elements of the recommendation. Throughout the process, the workgroup reinforced the imperative of achieving strong alignment with the Council's *2011-15 Strategic Agenda*.

The Council staff is pleased to report that after months of collaboration and deliberation, a 2014-16 postsecondary education budget recommendation to the Governor and General Assembly has been developed that staff believes will be endorsed by a majority of Kentucky's public college and university presidents.

The 2014-16 budget recommendation is comprised of four major funding categories: (a) institutional operating funds; (b) strategic investment and incentive trust funds; (c) capital investments and information technology; and (d) the CPE agency budget. Recommended funding levels and programmatic emphases for each of these categories are described below.

### **Institutional Operating Funds**

General Funds for institutional operations, along with tuition and fee revenue, support education and general (E&G) expenditures on campus, including faculty and staff salaries and benefits, student financial aid, utilities, building maintenance, libraries, student support services, and numerous other operating expenses. Institutional operating funds are also used to pursue more specialized activities and initiatives that further the goals of *The Postsecondary Education Improvement Act* (HB 1, 1997) and the objectives of the Council's *2011-15 Strategic Agenda for Kentucky Postsecondary and Adult Education*.

As can be seen in Table 1, the Council's 2014-16 operating funds request contains base adjustments and strategic investments. Base adjustments are technical in nature and relate to existing postsecondary obligations, including changes in state supported debt service and the University of Louisville hospital contract. Strategic investments, which comprise the lion's share of the request, typically represent additional budget requests (new money) for programs and initiatives that are well aligned with the goals and objectives of HB 1 and the *2011-15 Strategic Agenda*.

The Council staff is recommending appropriations of \$50,567,800 in fiscal year 2014-15 and \$51,949,700 in fiscal year 2015-16 to support strategic investments that will allow the

public postsecondary system to continue making progress toward attainment of HB 1 and *2011-15 Strategic Agenda* goals and objectives. Components of the strategic investments request include college and career readiness, research and economic development, a new performance funding program, land grant mission funds, and a Kentucky Adult Learner Initiative. Each of these components is described briefly below.

**Table 1: Components of 2014-16 Operating Funds Request**

<b>Description</b>	<b>2014-15</b>	<b>2015-16</b>
Beginning Base (2013-14 Total General Fund)	\$941,574,700	\$941,574,700
Base Adjustments	(4,156,300)	(2,495,400)
Strategic Investments:		
College and Career Readiness	19,185,900	19,185,900
Research and Economic Development	12,000,000	12,000,000
Performance Funding (Degree Production)	18,000,000	18,000,000 <sup>(a)</sup>
UK/KSU Land Grant Mission Funds	1,381,900	2,763,800
Kentucky Adult Learner Initiative	0 <sup>(b)</sup>	0 <sup>(b)</sup>
Subtotal	50,567,800	51,949,700
<b>Total Operating Funds Request</b>	<b>\$987,986,200</b>	<b>\$991,029,000</b>

<sup>(a)</sup> Does not include an additional \$18.0 million for Performance Funding, which will be requested as part of CPE's agency budget in fiscal year 2015-16, pending distribution to the institutions when academic year 2013-14 degree numbers are known.

<sup>(b)</sup> Does not include \$2.4 million for the Kentucky Adult Learner Initiative, which will be requested as part of CPE's agency budget in fiscal years 2014-15 and 2015-16, pending distribution to the institutions when campus participation levels are known.

College and Career Readiness: This program is designed to increase college preparation levels of Kentucky residents entering postsecondary education. This aim will be accomplished by: (a) implementing a Clinical Model of teacher preparation at the public universities; (b) improving diagnostic assessment and placement testing at middle and high schools; (c) supporting development of transitional courses and summer bridge programs to address academic deficiencies; (d) creating a new model of developmental education that places students in credit bearing courses with academic support; and (e) providing professional development to improve instruction and support student learning.

The College and Career Readiness Program is well aligned with the following *2011-15 Strategic Agenda* objectives and strategies:

*Policy Objective 1: Increase the number of college ready Kentuckians entering postsecondary education.*

- Strategy 1.2. Support effective intervention strategies for underprepared students prior to postsecondary admission.

*Policy Objective 3: Increase the effectiveness of Kentucky's K-12 teachers and school leaders.*

- Strategy 3.1. Ensure K-12 educator preparation programs attract, retain, and prepare highly effective teachers and school leaders.
- Strategy 3.2. Expand the role of higher education institutions in the delivery of professional development programs for teachers, school leaders, guidance counselors, adult education instructors, and faculty members.

Research and Economic Development: This initiative supports creation of “Centers of Research Excellence” at the University of Kentucky and University of Louisville through targeted cluster hires in research focus areas that address important state needs and have ties to growing or promising business and industry sectors. Creating a critical mass of scholars in high-potential focus areas will bolster recruitment and retention of outstanding research faculty and staff in both targeted and related disciplines, increase federal and extramural research funding, accelerate translation of discoveries from technological development to commercial utility, and support economic development and improved quality of life in Kentucky.

The Research and Economic Development Program is well aligned with the following 2011-15 Strategic Agenda objectives and strategies:

*Policy Objective 6: Increase basic, applied, and translational research to create new knowledge and economic growth.*

- Strategy 6.1. Support the critical role that the University of Kentucky and the University of Louisville play in the creation of new knowledge and recognize universities and faculty members for the advancement of knowledge and enlightenment.
- Strategy 6.2. Support collaborative research efforts that leverage university expertise, lead to research investments and commercialization in high-growth or emerging areas, and are aligned with business and industry growth.
- Strategy 6.4. Secure additional funding for research matching programs and explore new funding approaches to maximize research, Kentucky Innovation Act investments, and multi-campus collaborations.

Performance Funding (Degree Production): This is a new performance funding approach that provides incentives for institutions to increase the number of high-quality degrees they produce by linking funding to outcomes. Program funds will be distributed among the institutions based on each institution's share of a rolling three-year average of total annual degrees produced, weighted by level, with premiums for STEM+H, underrepresented student, and low-income student degrees, then adjusted using average salary data by sector as a proxy for cost of instruction.

The Performance Funding Program is well aligned with the following *2011-15 Strategic Agenda* objectives and strategies:

*Policy Objective 4: Increase high-quality degree production and completion rates at all levels and close achievement gaps, particularly for lower-income, underprepared, and underrepresented minority students.*

- Strategy 4.2. Provide institution and student incentives to increase high-quality degree production and completion rates.
- Strategy 4.5. Secure adequate institutional funding to support high-quality faculty and staff, effective student and academic support services, technology enhancements, and other resources to enhance student success.

Land Grant Mission Funds: This is a new initiative that will help maintain service levels and programmatic activities of land grant programs at the University of Kentucky and Kentucky State University. These funds will help sustain the effectiveness and impact of outreach, service, and applied research at Kentucky's land grant programs, and provide continuing support for science-based education in agriculture, natural resources, foods and nutrition, and community development.

Kentucky Adult Learner Initiative: This is a new program designed to increase college attainment of Kentucky's adult population through online learning opportunities. It is an outgrowth of the Adult Learner Degree Attainment Initiative (HB 265) that directs the Council to work with public four-year universities and KCTCS to help develop and improve educational opportunities for adult learners. The Council and institutions are developing a statewide postsecondary alliance, whose primary mission will be to meet the higher education needs of Kentucky's adult population through online learning and credit for prior learning.

The Kentucky Adult Learner Initiative is well aligned with the following *2011-15 Strategic Agenda* objectives and strategies:

*Policy Objective 4: Increase high-quality degree production and completion rates at all levels and close achievement gaps, particularly for lower-income, underprepared, and underrepresented minority students.*

- Strategy 4.4. Support new pathways for adult learners to enroll and complete postsecondary degrees and credentials.

*Policy Objective 8: Increase academic productivity through program innovations.*

- Strategy 8.1. Increase productivity and maximize success for both traditional and nontraditional students through course redesign and alternative methods of program delivery.

- Strategy 8.2. Build upon the success of Kentucky's Virtual Campus and Virtual Library to maximize the use of technology in implementing academic innovations.

## Strategic Investment and Incentive Trust Funds

The *Postsecondary Education Improvement Act of 1997* (HB 1) created six Strategic Investment and Incentive Trust Funds to bring about change and improvement in Kentucky's colleges and universities by providing strategic financial incentives that advance the state's goals for postsecondary education. When the General Assembly provides appropriations for the trust funds, they typically are maintained and administered by the Council, but represent resources that are passed through to postsecondary institutions based on compliance with Council approved guidelines and procedures. The purpose of such funds is to accelerate statewide achievement of reform goals.

Major components of the staff's 2014-16 Trust Funds recommendation include Bucks for Brains and a new Workforce Development Match Program (Table 2). Each of these components is described in more detail below.

**Table 2: Components of 2014-16 Trust Funds Request**

Description	2014-15	2015-16
Additional Budget Requests For:		
Bucks for Brains (Debt Service)	\$0	\$8,382,000 <sup>(a)</sup>
Workforce Development Match Program (Debt Service)	0	468,000 <sup>(b)</sup>
<b>Total Trust Funds Request</b>	<b>\$0</b>	<b>\$8,850,000</b>

<sup>(a)</sup> Debt service on a \$90.0 million bond issue for Bucks for Brains.

<sup>(b)</sup> Debt service on a \$5.0 million bond issue for a new Workforce Development Match Program.

**Bucks for Brains:** This program is a key strategic funding component of Kentucky's postsecondary reform agenda. It matches state appropriations with private gifts to encourage research at the University of Kentucky and the University of Louisville and to strengthen vital programs at Kentucky's comprehensive universities. Typically, state and private funds are endowed, which provides a perpetual source of funding for research related activities. Returns are used to create endowed chairs and professorships and establish endowed scholarship and fellowship programs. Beginning in 2008-10, program funds could also be used to construct new research or E&G facilities and upgrade equipment.

The Bucks for Brains Program is well aligned with the following *2011-15 Strategic Agenda* objectives and strategies:

*Policy Objective 6: Increase basic, applied, and translational research to create new knowledge and economic growth.*

- Strategy 6.1. Support the critical role that the University of Kentucky and the University of Louisville play in the creation of new knowledge and recognize universities and faculty members for the advancement of knowledge and enlightenment.
- Strategy 6.4. Secure additional funding for research matching programs and explore new funding approaches to maximize research, *Kentucky Innovation Act* investments, and multi-campus collaborations.

Workforce Development Match Program: This is a new program that is the two-year college equivalent of Bucks for Brains for the four-year universities, but rather than supporting research, it will strengthen workforce education and training programs in targeted focus areas to meet critical employment needs in Kentucky. State funding for this program will be matched dollar for dollar with private gifts and the resulting total will be endowed to provide a perpetual source of funding for KCTCS workforce development activities. Proceeds from the endowments will be used to support faculty and staff positions, student scholarships, and workforce education and training infrastructure.

The Workforce Development Match Program is well aligned with the following 2011-15 *Strategic Agenda* objectives and strategies:

*Policy Objective 7: Increase educational attainment and quality of life in Kentucky communities through regional stewardship, public service, and community outreach.*

- Strategy 7.1. Strengthen and expand partnerships with business, industry, government, non-profit, and other educational entities to meet Kentucky's workforce and community needs.

## **Capital Investments and Information Technology**

Each biennium the Council is asked to present a recommendation to the Governor and General Assembly that identifies the capital needs of Kentucky's public postsecondary institutions. Two years ago, staff recommended that the Council and elected leadership of the Commonwealth commit to a capital investment strategy that provides a consistent level of funding over three biennia. For 2014-16, staff again advocates that the Council adopt a multi-biennial approach, which invests more heavily in asset preservation and renovation, while continuing to provide a sufficient level of new and expanded space to accommodate continuing enrollment growth of the public postsecondary system.

As can be seen in Table 3, the recommended capital investments and technology initiatives request includes funding components for asset preservation and renovation, new and expanded space, and information technology initiatives. A brief description of each of these components is provided below.

**Table 3: Components of 2014-16 Capital and Technology Request**

Description	2014-15	2015-16
Additional Budget Requests For:		
Asset Preservation and Renovation	\$0	\$29,612,000 <sup>(a)</sup>
New and Expanded Space	\$0	\$26,260,000 <sup>(b)</sup>
Information Technology Initiatives	0	8,349,000 <sup>(c)</sup>
<b>Total Capital and Technology Request</b>	<b>\$0</b>	<b>\$64,221,000</b>

<sup>(a)</sup> Annual debt service payment on a \$318.0 million bond issue to fund asset preservation and renovation projects on postsecondary institution campuses.

<sup>(b)</sup> Annual debt service payment on a \$282.0 million bond issue to fund new and expanded space (E&G and research) on postsecondary institution campuses.

<sup>(c)</sup> Annual debt service payment on a \$60.0 million bond issue to fund information technology initiatives at the postsecondary institutions and CPE.

Asset Preservation and Renovation: The Council staff recommends \$318.0 million in state bonds to fund asset preservation and renovation projects to begin addressing a backlog of over \$6.1 billion in asset preservation needs identified in a VFA statewide facilities study (2007). Among many findings in that study, VFA recommended that buildings should serve current and future programmatic needs either by design or retrofit. Funds are allocated among the institutions using a blended distribution approach endorsed by campus officials.

New/Expanded Space: The Council staff recommends \$282.0 million in state bonds to build new and expanded E&G and research space on public postsecondary campuses. These funds will provide additional capacity to accommodate increasing numbers of students coming into the system and further the goals and objectives of HB 1 (1997) and the Council's 2011-15 *Strategic Agenda* to increase access and degree production and expand research capacity. If approved and authorized, the recommended funds will be distributed among the institutions using an agreed upon blended approach.

Information Technology: Staff recommends \$60.0 million in state bonds to support information technology initiatives at the postsecondary institutions and CPE, including postsecondary network infrastructure upgrades, replacement of instructional and administrative systems, investments in system upgrades, replacement of aging and obsolete systems, and expanded capacity. A special \$1.2 million allocation from this pool is reserved to implement an Adult Learner Initiative (HB 265).

Institutionally Funded Projects: Staff recommends that the Council endorse and support agency bond authority at a level that allows completion of each institution's highest priority agency-bond-funded capital projects. The Council staff recommends authorization of agency, federal, private, and other fund source projects to address life safety, major maintenance, equipment acquisitions, infrastructure repair and upgrades, and new construction. The Council staff recommends authorization of nine projects to improve energy efficiency in campus buildings including energy equipment acquisitions and infrastructure repair and upgrades.



## CPE Agency Budget

The Council staff recommends that the Council request increases in General Fund appropriations of \$2,071,700 in 2014-15 and \$3,316,600 in 2015-16 to support the agency's statewide postsecondary education coordinating board role. When added to the agency's enacted 2013-14 General Fund base of \$43,933,000, these increases result in total appropriations of \$46,004,700 in 2014-15 and \$47,249,600 in 2015-16 (excluding postsecondary institution funds and debt service).

The Council staff's agency budget recommendation can be broken down into five main categories: (1) agency staff and operating costs; (2) Kentucky Adult Education (KYAE) local program providers; (3) student aid and assistance; (4) technology and academic support; and (5) research and economic development. Each of these components is described briefly below. For most agency budget components, the Council staff is recommending a modest 2 percent inflationary increase in the first year of the biennium and a 4 percent increase in the second year. These increases are intended to help maintain buying power in budget areas that have seen substantial cuts in recent years.

Major components of the agency budget request are shown in Table 4, followed by a brief description of each component.

**Table 4: Components of 2014-16 Agency Budget Request**

<b>Description</b>	<b>2014-15</b>	<b>2015-16</b>
Beginning Base (2013-14 General Fund)	\$43,933,000	\$43,933,000
Additional Budget Requests For:		
Agency Staff and Operating Costs	451,900	859,900
KYAE Local Program Providers	1,114,300	1,466,100
Student Aid and Assistance	305,300	590,300
Technology and Academic Support	85,800	171,600
Research and Economic Development	114,400	228,700
Subtotal <sup>(a)(b)</sup>	2,071,700	3,316,600
<b>Total Agency Budget Request</b>	<b>\$46,004,700</b>	<b>\$47,249,600</b>

(a) Does not include \$2.4 million in 2014-15 or \$20.4 million in 2015-16 for an Adult Learner Initiative and a Performance Funding Program for the postsecondary institutions.

(b) Does not include \$73.1 million in debt service for asset preservation, renovation, and new or expanded space projects at the postsecondary institutions, for an information technology pool, for a fifth round of Bucks for Brains funding, or for a new Workforce Development Match Program, which will be housed in several CPE trust funds.

Agency Staff and Operating Costs: The Council is required under the 2014-16 Branch Budget Guidelines to request appropriations to cover cost increases related to statutory cost of living salary adjustments and increases in Kentucky Employee Retirement System (KERS) contributions. In 2014-16, over 90 percent of proposed increases in agency staff and operating costs stem from defined calculations and mandated salary adjustments.

KYAE Local Program Providers: Funds for the Adult Education and Literacy Funding Program support local providers of adult education services throughout Kentucky. On a percentage basis, the recommended increases are similar to increases being requested on behalf of the public postsecondary institutions each year of the biennium. If approved and authorized, the lion's share of these funds will be distributed among the KYAE local program providers based on relative need for program services in each county of the Commonwealth.

Student Aid and Assistance: Every year, a small number of student financial aid and assistance programs are funded through the Council's agency budget. In 2014-16, requested increases for Contract Spaces and the SREB Doctoral Scholars Program comprise over 95 percent of the total increase for student aid and assistance programs. The Contract Spaces Program allows Kentucky residents to attend out-of-state veterinary and optometry schools at in-state tuition rates. Requested increases for this program will maintain the current number of reserved spaces for Kentucky students and cover anticipated tuition increases in academic years 2014-15 and 2015-16 for these programs. Additional funding for the SREB Doctoral Scholars Program will allow for two additional participants in this program (for a total of five) which assists underrepresented minorities in obtaining doctoral degrees.

Technology and Academic Support: Staff recommends inflationary increases to support statewide information technology and academic support services provided by the Kentucky Virtual Campus (KYVC), the Kentucky Virtual Library (KYVL), the Kentucky Postsecondary Education Network (KPEN), and the Kentucky Postsecondary Education Data System (KPEDS). In addition, staff recommends that the Council endorse continuation funding for K-12 teacher quality initiatives funded through SB 1, which have produced impressive results in the first few years of program implementation through teacher professional development and P-12 and postsecondary institution partnerships.

Research and Economic Development: These funds primarily support Kentucky Science and Technology Corporation (KSTC) programs to stimulate innovation and create high-paying jobs. Staff recommends inflationary increases for KSTC's two major programs, the Kentucky Science and Engineering Foundation and the Kentucky Enterprise Fund.

Postsecondary Institutions: The agency budget includes \$18.0 million in fiscal year 2015-16 for a postsecondary institution Performance Funding Program (i.e., Degree Production) and \$2.4 million in start-up funds each year of the biennium for a Kentucky Adult Learner Initiative, which is still in development. Degree Production funds will be allocated among institutions and disbursed when academic year 2013-14 degree numbers are known. The requested funds for the adult learner initiative are vital to the success of this program and will be distributed among institutions when campus participation levels are known.

Debt Service: The agency budget request includes annual debt service associated with requests for \$318.0 million in bond funds to support asset preservation and renovation projects at the postsecondary institutions, \$282.0 million in bond funds to support new and expanded facilities space at the institutions, and \$60.0 million in bond funds to support information technology initiatives for the system, as well as, debt service on a \$90.0 million

bond issue for a fifth round of Bucks for Brains funding for the research and comprehensive universities and \$5.0 million in bond funds for a new Workforce Development Match Program for KCTCS.

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